

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

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HOUSE BILL 961

Short Title: Tax Modernization and Simplification. (Public)

Sponsors: Representatives Alexander and R. Moore (Primary Sponsors).
For a complete list of Sponsors, refer to the North Carolina General Assembly Web Site.

Referred to: Rules, Calendar, and Operations of the House, if favorable, Finance.

April 18, 2013

A BILL TO BE ENTITLED
AN ACT TO MODERNIZE AND SIMPLIFY THE TAX CODE OF NORTH CAROLINA.
The General Assembly of North Carolina enacts:

PART I. FRANCHISE TAX

SECTION 1.1. Article 3 of Subchapter I of Chapter 105 of the General Statutes is repealed.

SECTION 1.2. G.S. 58-6-7(a) reads as rewritten:

"§ 58-6-7. Licenses; perpetual licensing; annual license continuation fees for insurance companies.

(a) In order to do business in this State, an insurance company shall apply for and obtain a license from the Commissioner. The license shall be perpetual and shall continue in full force and effect, subject to timely payment of the annual license continuation fee in accordance with this Chapter and subject to any other applicable provision of the insurance laws of this State. The insurance company shall pay a fee for each year the license is in effect, as follows:

For each domestic farmer's mutual assessment fire insurance company.....	\$ 25.00
For each fraternal order.....	500.00
For each of all other insurance companies companies, except mutual burial associations taxed under G.S. 105-121.1	2,500.00

The fees levied in this subsection are in addition to those specified in G.S. 58-6-5."

SECTION 1.3. G.S. 105-130.6A(a) reads as rewritten:

"(a) Definitions. – The provisions of G.S. 105-130.6 govern the determination of whether a corporation is a subsidiary or an affiliate of another corporation. In addition, the following definitions apply in this section:

- (1) Affiliated group. – A group that includes a corporation, all other corporations that are affiliates or subsidiaries of that corporation, and all other corporations that are affiliates or subsidiaries of another corporation in the group.
- (2) Bank holding company. – A holding company with an affiliate that is subject to the privilege tax on banks levied in G.S. 105-102.3.
- (3) Dividends. – Dividends received that are not taxed under this Part.



- 1 (4) Electric power holding company. – A holding company with an affiliate or a
2 subsidiary that is ~~subject to the franchise tax on electric power companies~~
3 ~~levied in G.S. 105-116~~ an electric power company engaged in the business
4 of furnishing electricity, electric lights, current, or power.
- 5 (5) Expense adjustment. – The adjustment required by G.S. 105-130.5(c)(3) for
6 expenses related to dividends not taxed under this Part.
- 7 (6) Holding company. – ~~Defined in G.S. 105-120.2~~ A corporation that receives
8 during its taxable year more than eighty percent (80%) of its gross income
9 from corporations in which it owns directly or indirectly more than fifty
10 percent (50%) of the outstanding voting stock or voting capital interests."

11 **SECTION 1.4.** G.S. 105-241(b) reads as rewritten:

12 "(b) Electronic Funds Transfer. – Payment by electronic funds transfer is required as
13 provided in this subsection.

- 14 (1) Corporate estimated taxes. – A corporation that is required under the Code to
15 pay its federal-estimated corporate income tax by electronic funds transfer
16 must pay its State-estimated corporate income tax by electronic funds
17 transfer as provided in G.S. 105-163.40.
- 18 (2) Prepayment taxes. – A taxpayer that is required to prepay tax under
19 ~~G.S. 105-116~~ ~~or~~ G.S. 105-164.16 must pay the tax by electronic funds
20 transfer.
- 21 (2a) Motor fuel taxes. – A taxpayer that files an electronic return under
22 Subchapter V of this Chapter or Article 3 of Chapter 119 of the General
23 Statutes must pay the tax by electronic funds transfer.
- 24 (3) Large tax payments. – Except as otherwise provided in this subsection, the
25 Secretary shall not require a taxpayer to pay a tax by electronic funds
26 transfer unless, during the applicable period for that tax, the average amount
27 of the taxpayer's required payments of the tax was at least twenty thousand
28 dollars (\$20,000) a month. The twenty thousand dollar (\$20,000) threshold
29 applies separately to each tax. The applicable period for a tax is a 12-month
30 period, designated by the Secretary, preceding the imposition or review of
31 the payment requirement. The requirement that a taxpayer pay a tax by
32 electronic funds transfer remains in effect until suspended by the Secretary.
33 Every 12 months after requiring a taxpayer to pay a tax by electronic funds
34 transfer, the Secretary must determine whether, during the applicable period
35 for that tax, the average amount of the taxpayer's required payments of the
36 tax was at least twenty thousand dollars (\$20,000) a month. If it was not, the
37 Secretary must suspend the requirement that the taxpayer pay the tax by
38 electronic funds transfer and must notify the taxpayer in writing that the
39 requirement has been suspended."

40 **SECTION 1.5.** G.S. 105-259 reads as rewritten:

41 "(b) Disclosure Prohibited. – An officer, an employee, or an agent of the State who has
42 access to tax information in the course of service to or employment by the State may not
43 disclose the information to any other person except as provided in this subsection. Standards
44 used or to be used for the selection of returns for examination and data used or to be used for
45 determining the standards may not be disclosed for any purpose. All other tax information may
46 be disclosed only if the disclosure is made for one of the following purposes:

- 47 ...
- 48 (5b) To furnish to the finance officials of a city a list of the utility taxable gross
49 receipts and piped natural gas tax revenues attributable to the city under
50 ~~G.S. 105-116.1~~ ~~and~~ G.S. 105-187.44 or under former
51 ~~G.S. 105-116~~ G.S. 105-116, G.S. 105-116.1, and G.S. 105-120.

...."

SECTION 1.6. G.S. 159B-27 reads as rewritten:

"§ 159B-27. Taxes; payments in lieu of taxes.

(a) A project jointly owned by municipalities or owned by a joint agency shall be exempt from property taxes; provided, however, that each municipality possessing an ownership share of a project, and a joint agency owning a project, shall, in lieu of property taxes, pay to any governmental body authorized to levy property taxes the amount which would be assessed as taxes on real and personal property of a project if such project were otherwise subject to valuation and assessment by the Department of Revenue. Such payments in lieu of taxes shall be due and shall bear interest if unpaid, as in the cases of taxes on other property. Payments in lieu of taxes made hereunder shall be treated in the same manner as taxes for purposes of all procedural and substantive provisions of law. Any administrative building and associated land shall be deemed a project for purposes of this paragraph.

(b) ~~Each municipality having an ownership share in a project shall pay to the State in lieu of an annual franchise or privilege tax an amount equal to three and twenty two hundredths percent (3.22%) of that percentage of all moneys expended by said municipality on account of its ownership share, including payment of principal and interest on bonds issued to finance such ownership share, which is equal to the percentage of such city or town's total entitlement that is used or sold by it to any person, firm or corporation exempted by law from the payment of the tax on gross receipts pursuant to G.S. 105-116.~~

(c) ~~In lieu of an annual franchise or privilege tax, each joint agency shall pay to the State an amount equal to three and twenty two hundredths percent (3.22%) of the gross receipts from sales of electric power or energy, less receipts from sales of electric power or energy to a vendee subject to tax under G.S. 105-116.~~

(d) ~~The State shall distribute to cities and towns which receive electric power and energy from their ownership share of a project or to which electric power and energy is sold by a joint agency an amount equal to a tax of three and nine hundredths percent (3.09%) of all moneys expended by a municipality on account of its ownership share of a project, including payment of principal and interest on bonds issued to finance such ownership share, or an amount equal to a tax of three and nine hundredths percent (3.09%) of the gross receipts from all sales of electric power and energy to such city or town by a joint agency, as the case may be. The General Assembly finds that the revenue distributed under this section is local revenue, not a State expenditure, for the purpose of Section 5(3) of Article III of the North Carolina Constitution. Therefore, the Governor may not reduce or withhold the distribution.~~

(e) ~~The reporting, payment and collection procedures contained in G.S. 105-116 shall apply to the levy herein made.~~

(f) ~~Except as herein expressly provided with respect to jointly owned projects or projects owned by a joint agency, no other property of a municipality used or useful in the generation, transmission and distribution of electric power and energy shall be subject to payments in lieu of taxes."~~

SECTION 1.7. G.S. 160A-675 reads as rewritten:

"§ 160A-675. Tax exemption.

A district, and its property, bonds and notes, and income, are exempt from property taxes and income taxes to the same extent as if it were a city. ~~A district is subject to gross receipts tax under G.S. 105-116."~~

SECTION 1.8. This Part becomes effective for taxable years beginning on or after January 1, 2014.

PART II. SALES TAX MODIFICATIONS

SECTION 2.1. G.S. 105-164.3 is amended by adding a new subdivision to read:

"§ 105-164.3. Definitions.

1 The following definitions apply in this Article:

2 ...
3 (38a) Service contract. – A warranty agreement, a maintenance agreement, a repair
4 contract, or a similar agreement or contract by which the seller agrees to
5 maintain or repair tangible personal property.

6"

7 **SECTION 2.2.** G.S. 105-164.4(a) reads as rewritten:

8 **"§ 105-164.4. Tax imposed on retailers.**

9 (a) A privilege tax is imposed on a retailer at the following percentage rates of the
10 retailer's net taxable sales or gross receipts, as appropriate. The general rate of tax is ~~four and~~
11 ~~three quarters percent (4.75%)~~; three and one-half percent (3.5%).

12"

13 **SECTION 2.3.** G.S. 105-164.4A is reenacted and is rewritten to read:

14 **"§ 105-164.4A. Tax imposed on service providers.**

15 (a) Tax. – A privilege tax is imposed on a service provider at a percentage rate of its
16 gross receipts. The rate of tax is the general rate set in G.S. 105-164.4. For purposes of this
17 Article, a service provider is considered a retailer and a service contract is considered a service.

18 (b) Exemptions. – A tax imposed by this section does not apply to any of the following:

19 (1) A service that is provided to a business for use in that business.

20 (2) Services taxed under G.S. 105-164.4.

21 (3) Medical services."

22 **SECTION 2.4.** G.S. 105-467 reads as rewritten:

23 **"§ 105-467. Scope of sales tax.**

24 (a) Sales Tax. – The sales tax that may be imposed under this Article is limited to a tax
25 at the rate of one percent (1%) of the following:

26 (1) A retailer's net taxable sales and gross receipts that are subject to the general
27 rate of sales tax imposed by the State under ~~G.S. 105-164.4~~; G.S. 105-164.4
28 or G.S. 105-164.4A.

29 ...

30 (b) Exemptions and Refunds. – The State exemptions and exclusions contained in
31 G.S. 105-164.4A, the State sales tax imposed on service providers, G.S. 105-164.13, the State
32 sales and use tax holidays contained in G.S. 105-164.13C and G.S. 105-164.13D, and the State
33 refund provisions contained in G.S. 105-164.14 through G.S. 105-164.14B apply to the local
34 sales and use tax authorized to be levied and imposed under this Article. Except as provided in
35 this subsection, a taxing county may not allow an exemption, exclusion, or refund that is not
36 allowed under the State sales and use tax. A local school administrative unit and a joint agency
37 created by interlocal agreement among local school administrative units pursuant to
38 G.S. 160A-462 to jointly purchase food service-related materials, supplies, and equipment on
39 their behalf is allowed an annual refund of sales and use taxes paid by it under this Article on
40 direct purchases of tangible personal property and services, other than electricity,
41 telecommunications service, and ancillary service. Sales and use tax liability indirectly incurred
42 by the entity on building materials, supplies, fixtures, and equipment that become a part of or
43 annexed to any building or structure that is owned or leased by the entity and is being erected,
44 altered, or repaired for use by the entity is considered a sales or use tax liability incurred on
45 direct purchases by the entity for the purpose of this subsection. A request for a refund shall be
46 in writing and shall include any information and documentation required by the Secretary. A
47 request for a refund is due within six months after the end of the entity's fiscal year. Refunds
48 applied for more than three years after the due date are barred.

49"

50 **SECTION 2.5.** This Part becomes effective January 1, 2014, and applies to sales
51 made on or after that date.

PART III. PERSONAL INCOME TAX CHANGES

SECTION 3.1. G.S. 105-134.2(a) reads as rewritten:

(a) A tax is imposed at the rate of six percent (6%) upon the North Carolina taxable income of every individual. The tax shall be levied, collected, and paid annually and shall be computed at the following percentages of the taxpayer's North Carolina taxable income annually.

(1) For married individuals who file a joint return under G.S. 105-152 and for surviving spouses, as defined in section 2(a) of the Code:

Over	Up To	Rate
-0-	\$21,250	6%
\$21,250	\$100,000	7%
\$100,000	NA	7.75%

(2) For heads of households, as defined in section 2(b) of the Code:

Over	Up To	Rate
-0-	\$17,000	6%
\$17,000	\$80,000	7%
\$80,000	NA	7.75%

(3) For unmarried individuals other than surviving spouses and heads of households:

Over	Up To	Rate
-0-	\$12,750	6%
\$12,750	\$60,000	7%
\$60,000	NA	7.75%

(4) For married individuals who do not file a joint return under G.S. 105-152:

Over	Up To	Rate
-0-	\$10,625	6%
\$10,625	\$50,000	7%
\$50,000	NA	7.75%

SECTION 3.2. G.S. 105-134.6 reads as rewritten:

"§ 105-134.6. Modifications to adjusted gross income.

(a) S Corporations. – Each shareholder's pro rata share of an S Corporation's income is subject to the adjustments provided in this section.

(a1) Personal Exemption. – In calculating North Carolina taxable income, a taxpayer may deduct an exemption amount equal to six thousand dollars (\$6,000) the amount listed in the table below based on the taxpayer's filing status and adjusted gross income. The taxpayer is allowed the same personal exemptions allowed under section 151 of the Code for the taxable year.

Filing Status	Adjusted Gross Income	Personal Exemption
Married, filing jointly	Up to \$100,000	\$2,500
	Over \$100,000	\$2,000
Head of Household	Up to \$80,000	\$2,500
	Over \$80,000	\$2,000
Single	Up to \$60,000	\$2,500
	Over \$60,000	\$2,000
Married, filing separately	Up to \$50,000	\$2,500
	Over \$50,000	\$2,000

(a2) Deduction Amount. – In calculating North Carolina taxable income, a taxpayer may deduct either the North Carolina standard deduction amount for that taxpayer's filing status or the itemized deductions amount claimed under the Code. The North Carolina standard

1 deduction amount is the lesser of the amount shown in the table below or the amount allowed
 2 under the Code. In the case of a married couple filing separate returns, a taxpayer may not
 3 deduct the standard deduction amount if the taxpayer or the taxpayer's spouse claims itemized
 4 deductions for State purposes.

5 A taxpayer that deducts the standard deduction amount under this subsection and is entitled
 6 to an additional deduction amount under section 63(f) of the Code for the aged or blind may
 7 deduct an additional amount under this subsection. The additional amount the taxpayer may
 8 deduct is six hundred dollars (\$600.00) in the case of an individual who is married and seven
 9 hundred fifty dollars (\$750.00) in the case of an individual who is not married and is not a
 10 surviving spouse. The taxpayer is allowed the same number of additional amounts that the
 11 taxpayer claimed under the Code for the taxable year.

Filing Status	Standard Deduction
Married, filing jointly	\$6,000
Head of Household	4,400
Single	3,000
Married, filing separately	3,000.

17 (b) Other Deductions. – In calculating North Carolina taxable income, a taxpayer may
 18 deduct any of the following items to the extent those items are included in the taxpayer's
 19 adjusted gross income.

- (1) Interest upon the obligations of any of the following:
 - a. The United States or its possessions.
 - b. This State, a political subdivision of this State, or a commission, an authority, or another agency of this State or of a political subdivision of this State.
 - c. ~~A nonprofit educational institution organized or chartered under the laws of this State.~~
- (2) Gain from the disposition of obligations issued before July 1, 1995, to the extent the gain is exempt from tax under the laws of this State.
- (3) ~~Benefits~~ Ten thousand dollars (\$10,000) of benefits received under Title II of the Social Security Act and amounts received from retirement annuities or pensions paid under the provisions of the Railroad Retirement Act of 1937.
- ...
- (6) a. ~~An amount, not to exceed four thousand dollars (\$4,000), equal to the sum of the amount calculated in subparagraph b. plus the amount calculated in subparagraph c.~~
 - b. ~~The amount calculated in this subparagraph is the amount received during the taxable year from one or more state, local, or federal government retirement plans.~~
 - c. ~~The amount calculated in this subparagraph is the amount received during the taxable year from one or more retirement plans other than state, local, or federal government retirement plans, not to exceed a total of two thousand dollars (\$2,000) in any taxable year.~~
 - d. ~~In the case of a married couple filing a joint return where both spouses received retirement benefits during the taxable year, the maximum dollar amounts provided in this subdivision for various types of retirement benefits apply separately to each spouse's benefits.~~
- ...
- (11) ~~Severance wages received by a taxpayer from an employer as the result of the taxpayer's permanent, involuntary termination from employment through no fault of the employee. The amount of severance wages deducted as the~~

- 1 result of the same termination may not exceed thirty five thousand dollars
2 (\$35,000) for all taxable years in which the wages are received.
3 ...
- 4 (14) ~~The amount paid to the taxpayer by the State under G.S. 148-84 as~~
5 ~~compensation for pecuniary loss suffered by reason of erroneous conviction~~
6 ~~and imprisonment.~~
- 7 (15) ~~Interest, investment earnings, and gains of a trust, the settlors of which are~~
8 ~~two or more manufacturers that signed a settlement agreement with this~~
9 ~~State to settle existing and potential claims of the State against the~~
10 ~~manufacturers for damages attributable to a product of the manufacturers, if~~
11 ~~the trust meets all of the following conditions:~~
- 12 a. ~~The purpose of the trust is to address adverse economic~~
13 ~~consequences resulting from a decline in demand of the~~
14 ~~manufactured product potentially expected to occur because of~~
15 ~~market restrictions and other provisions in the settlement agreement.~~
- 16 b. ~~A court of this State approves and retains jurisdiction over the trust.~~
- 17 c. ~~Certain portions of the distributions from the trust are made in~~
18 ~~accordance with certifications that meet the criteria in the agreement~~
19 ~~creating the trust and are provided by a nonprofit entity, the~~
20 ~~governing board of which includes State officials.~~
- 21 (16) ~~The amount paid to the taxpayer during the taxable year from the Hurricane~~
22 ~~Floyd Reserve Fund in the Office of State Budget and Management for~~
23 ~~hurricane relief or assistance, but not including payments for goods or~~
24 ~~services provided by the taxpayer.~~
- 25 (17) ~~In each of the taxpayer's first five taxable years beginning on or after~~
26 ~~January 1, 2005, an amount equal to twenty percent (20%) of the amount~~
27 ~~added to taxable income in a previous year as accelerated depreciation under~~
28 ~~subdivision (c)(8) of this section.~~
- 29 ...
- 30 (18) ~~The amount paid to the taxpayer during the taxable year from the Disaster~~
31 ~~Relief Reserve Fund in the Office of State Budget and Management for~~
32 ~~hurricane relief or assistance, but not including payments for goods or~~
33 ~~services provided by the taxpayer.~~
- 34 (19) ~~Five percent (5%) of the gross purchase price of a qualified sale of a~~
35 ~~manufactured home community. A qualified sale is a transfer of land~~
36 ~~comprising a manufactured home community in a single purchase to a group~~
37 ~~composed of a majority of the manufactured home community leaseholders~~
38 ~~or to a nonprofit organization that represents such a group. To be eligible for~~
39 ~~this deduction, a taxpayer must give notice of the sale to the North Carolina~~
40 ~~Housing Finance Agency under G.S. 42-14.3.~~
- 41 ...
- 42 (22) ~~An amount not to exceed fifty thousand dollars (\$50,000) of net business~~
43 ~~income the taxpayer receives during the taxable year. In the case of a~~
44 ~~married couple filing a joint return where both spouses receive or incur net~~
45 ~~business income, the maximum dollar amounts apply separately to each~~
46 ~~spouse's net business income, not to exceed a total of one hundred thousand~~
47 ~~dollars (\$100,000). For purposes of this subdivision, the term "business~~
48 ~~income" does not include income that is considered passive income under~~
49 ~~the Code.~~
- 50 (23) An amount not to exceed five thousand dollars (\$5,000) paid by the taxpayer
51 during the taxable year for costs incurred for funeral services and for

tangible personal property used for human burial purposes or as a repository for human remains.

(c) Additions. – In calculating North Carolina taxable income, a taxpayer must add any of the following items to the extent those items are not included in the taxpayer's adjusted gross income. For a taxpayer who deducts the itemized deductions amount under subsection (a2) of this section, the taxpayer must add any of the following items to the extent those items are included in the itemized deductions amount.

- ...
 - (2) ~~Any amount allowed as a deduction from gross income under the Code that is taxed under the Code by a separate tax other than the tax imposed in section 1 of the Code.~~
 - (3) ~~Any amount deducted from gross income under section 164 of the Code as state, local, or foreign income tax, as state or local general sales tax, or as qualified motor vehicle tax to the extent that the taxpayer's total itemized deductions deducted under the Code for the taxable year exceed the standard deduction allowable to the taxpayer under subsection (a2) of this section.~~
 - ...
 - (5) ~~The market price of the gleaned crop for which the taxpayer claims a credit for the taxable year under G.S. 105-151.14.~~
 - (5a) ~~The market price of the oyster shells for which the taxpayer claims a credit for the taxable year under G.S. 105-151.30.~~
 - (5b) ~~The amount of a donation made to a nonprofit organization or a unit of State or local government for which a credit is claimed under G.S. 105-129.16H.~~
 - ...
 - (7) ~~The amount of federal estate tax that is attributable to an item of income in respect of a decedent and is deducted from gross income under section 691(c) of the Code.~~
 - (8) ~~For taxable years 2002-2005, the applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code, as set out in the table below. In addition, a taxpayer who was allowed a special accelerated depreciation deduction under section 168(k) or section 1400L of the Code in a taxable year beginning before January 1, 2002, and whose North Carolina taxable income in that earlier year reflected that accelerated depreciation deduction must add to federal taxable income in the taxpayer's first taxable year beginning on or after January 1, 2002, an amount equal to the amount of the deduction allowed in the earlier taxable year. These adjustments do not result in a difference in basis of the affected assets for State and federal income tax purposes. The applicable percentage is as follows:~~

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%
2005	0%

- (8a) ~~The applicable percentage of the amount allowed as a special accelerated depreciation deduction under section 168(k) or 168(n) of the Code for property placed in service after December 31, 2007, but before January 1, 2010. The applicable percentage under this subdivision is eighty-five percent (85%).~~

~~In addition, a taxpayer who was allowed a special accelerated depreciation deduction in taxable year 2007 or 2008 for property placed in~~

1 service during that year, and whose North Carolina taxable income for that
2 year reflected that accelerated depreciation deduction must make the
3 adjustments set out below. These adjustments do not result in a difference in
4 basis of the affected assets for State and federal income tax purposes.

5 a. A taxpayer must add to federal taxable income in the taxpayer's 2008
6 taxable year an amount equal to the applicable percentage of the
7 accelerated depreciation deduction reflected in the taxpayer's 2007
8 North Carolina taxable income.

9 b. A taxpayer must add to federal taxable income in the taxpayer's 2009
10 taxable year an amount equal to the applicable percentage of the
11 accelerated depreciation deduction reflected in the taxpayer's 2008
12 North Carolina taxable income.

13 ...

14 (10) The amount excluded from gross income under section 199 of the Code.

15 ...

16 (14) The amount allowed as a deduction under section 163(e)(5)(F) of the Code
17 for an original issue discount on an applicable high yield discount obligation.

18 ...

19 (d) ~~Other Adjustments.~~—In calculating North Carolina taxable income, a taxpayer must
20 make the following adjustments to adjusted gross income.

21 (1) The amount of inheritance or estate tax attributable to an item of income in
22 respect of a decedent required to be included in gross income under the
23 Code, adjusted as provided in G.S. 105-134.5, 105-134.6, and 105-134.7,
24 may be deducted in the year the item of income is included. The amount of
25 inheritance or estate tax attributable to an item of income in respect of a
26 decedent is (i) the amount by which the inheritance or estate tax paid under
27 Article 1 or 1A of this Chapter on property transferred to a beneficiary by a
28 decedent exceeds the amount of the tax that would have been payable by the
29 beneficiary if the item of income in respect of a decedent had not been
30 included in the property transferred to the beneficiary by the decedent, (ii)
31 multiplied by a fraction, the numerator of which is the amount required to be
32 included in gross income for the taxable year under the Code, adjusted as
33 provided in G.S. 105-134.5, 105-134.6, and 105-134.7, and the denominator
34 of which is the total amount of income in respect of a decedent transferred to
35 the beneficiary by the decedent. For an estate or trust, the deduction allowed
36 by this subdivision shall be computed by excluding from the gross income of
37 the estate or trust the portion, if any, of the items of income in respect of a
38 decedent that are properly paid, credited, or to be distributed to the
39 beneficiaries during the taxable year.

40 The Secretary may provide to a beneficiary of an item of income in
41 respect of a decedent any information contained on an inheritance or estate
42 tax return that the beneficiary needs to compute the deduction allowed by
43 this subdivision.

44 (2) The taxpayer may deduct the amount by which the taxpayer's deductions
45 allowed under the Code were reduced, and the amount of the taxpayer's
46 deductions that were not allowed, because the taxpayer elected a federal tax
47 credit in lieu of a deduction. This deduction is allowed only to the extent that
48 a similar credit is not allowed by this Chapter for the amount.

49 (3) The taxpayer shall add to taxable income the amount of any recovery during
50 the taxable year not included in taxable income, to the extent the taxpayer's
51 deduction of the recovered amount in a prior taxable year reduced the

1 taxpayer's tax imposed by this Part but, due to differences between the Code
2 and this Part, did not reduce the amount of the taxpayer's tax imposed by the
3 Code. The taxpayer may deduct from taxable income the amount of any
4 recovery during the taxable year included in taxable income under section
5 111 of the Code, to the extent the taxpayer's deduction of the recovered
6 amount in a prior taxable year reduced the taxpayer's tax imposed by the
7 Code but, due to differences between the Code and this Part, did not reduce
8 the amount of the taxpayer's tax imposed by this Part.

9 (4) A taxpayer may deduct from taxable income the amount, not to exceed two
10 thousand five hundred dollars (\$2,500), contributed to an account in the
11 Parental Savings Trust Fund of the State Education Assistance Authority
12 established pursuant to G.S. 116-209.25. In the case of a married couple
13 filing a joint return, the maximum dollar amount of the deduction is five
14 thousand dollars (\$5,000).

15 (5) The taxpayer shall add to taxable income the amount deducted from taxable
16 income in a prior taxable year under subdivision (4) of this subsection to the
17 extent this amount was withdrawn from the Parental Savings Trust Fund of
18 the State Education Assistance Authority established pursuant to
19 G.S. 116-209.25 and not used to pay for the qualified higher education
20 expenses of the designated beneficiary, unless the withdrawal was made
21 without penalty under section 529 of the Code due to the death or permanent
22 disability of the designated beneficiary.

23 (6) A taxpayer who is an eligible firefighter or an eligible rescue squad worker
24 may deduct from taxable income the sum of two hundred fifty dollars
25 (\$250.00). In the case of a married couple filing a joint return, each spouse
26 may qualify separately for the deduction allowed under this subdivision. In
27 order to claim the deduction allowed under this subdivision, the taxpayer
28 must submit with the tax return any documentation required by the
29 Secretary. An individual may not claim a deduction as both an eligible
30 firefighter and as an eligible rescue squad worker in a single taxable year.
31 The following definitions apply in this subdivision:

32 a. Eligible firefighter. — An unpaid member of a volunteer fire
33 department who attended at least 36 hours of fire department drills
34 and meetings during the taxable year.

35 b. Eligible rescue squad worker. — An unpaid member of a volunteer
36 rescue or emergency medical services squad who attended at least 36
37 hours of rescue squad training and meetings during the taxable year.

38 (7) The taxpayer shall add to taxable income the amounts listed in this
39 subdivision. An addition is not required under this subdivision for a net
40 operating loss deduction of an eligible small business as defined under
41 section 172(b)(1)(H) of the Code. The amounts are:

42 a. For taxable years 2003, 2004, and 2005, the amount of any 2008 net
43 operating loss deduction claimed on a federal return under section
44 172(b)(1)(H) or section 810(b)(4) of the Code.

45 b. For taxable years 2004, 2005, and 2006, the amount of any 2009 net
46 operating loss deduction claimed on a federal return under section
47 172(b)(1)(H) or section 810(b)(4) of the Code.

48 (8) For taxable years 2011 through 2013, a taxpayer who made an addition
49 under subdivision (7) of this subsection may deduct the following amounts:

50 a. For a taxpayer who made an addition under sub-subdivision (7)a. of
51 this subsection, one third of the taxpayer's net operating loss

absorbed on the taxpayer's 2003, 2004, and 2005 federal returns under section 172(b)(1)(H) or section 810(b)(4) of the Code, with the exception of the portion of the net operating loss of an eligible small business absorbed on the taxpayer's 2003, 2004, and 2005 federal returns.

b. For a taxpayer who made an addition under sub-subdivision (7)b. of this subsection, one third of the taxpayer's net operating loss absorbed on the taxpayer's 2004, 2005, and 2006 federal returns under section 172(b)(1)(H) or section 810(b)(4) of the Code, with the exception of the portion of the net operating loss of an eligible small business absorbed on the taxpayer's 2004, 2005, and 2006 federal returns.

(9) To the extent a deduction has not been claimed for educator expenses in determining federal adjusted gross income, an eligible educator may deduct an amount not to exceed two hundred fifty dollars (\$250.00) paid or incurred in connection with items listed in this subdivision. This deduction is allowed only to the extent the expense has not been claimed under section 162 of the Code for the taxable year. For purposes of this subdivision, the term "eligible educator" has the same meaning as defined in section 62 of the Code, as it existed on December 31, 2011. In the case of a married couple filing a joint return where both spouses are eligible educators, the maximum dollar amount is five hundred dollars (\$500.00).

a. Books.

b. Supplies, other than nonathletic supplies for courses of instruction in health or physical education.

e. Computer equipment, including related software and services.

d. Supplementary materials used by the eligible educator in the classroom."

SECTION 3.3. The following statutes are repealed:

G.S. 105-134.7

G.S. 105-151.1

G.S. 105-151.11

G.S. 105-151.12

G.S. 105-151.13

G.S. 105-151.14

G.S. 105-151.18

G.S. 105-151.20

G.S. 105-151.21

G.S. 105-151.24

G.S. 105-151.25

G.S. 105-151.26

G.S. 105-151.31(c)

G.S. 105-151.33

SECTION 3.4. This Part is effective for taxable years beginning on or after January 1, 2014.

PART IV. ECONOMIC INCENTIVES TAX CHANGES

SECTION 4.1. Article 3C of Chapter 105 of the General Statutes is repealed.

SECTION 4.2. G.S. 105-129.39 reads as rewritten:

"§ 105-129.39. Sunset.

1 This Article expires for qualified rehabilitation expenditures and rehabilitation expenses
 2 incurred on or after January 1, ~~2015~~2014."

3 **SECTION 4.3.** G.S. 105-129.51(b) reads as rewritten:

4 "(b) This Article is repealed for taxable years beginning on or after January 1,
 5 ~~2014~~2016."

6 **SECTION 4.4.** G.S. 105-129.75 reads as rewritten:

7 "**§ 105-129.75. Sunset.**

8 This Article expires January 1, ~~2015~~2014, for rehabilitation projects for which an
 9 application for an eligibility certification is submitted on or after that date."

10 **SECTION 4.5.** G.S. 105-129.99 reads as rewritten:

11 "**§ 105-129.99. Sunset.**

12 This Article is repealed effective for taxable years beginning on or after January 1,
 13 ~~2038~~2014."

14 **SECTION 4.6.** This Part is effective when it becomes law.

15
 16 **PART V. CORPORATE INCOME TAX CHANGES**

17 **SECTION 5.1.** G.S. 105-130.3 reads as rewritten:

18 "**§ 105-130.3. Corporations.**

19 A tax is imposed on the State net income of every C Corporation doing business in this
 20 State. An S Corporation is not subject to the tax levied in this section. The tax is a
 21 percentage~~four percent (4%)~~ of the taxpayer's State net ~~income computed as follows:~~ income.

22 Income Years Beginning	Tax
23 In 1997	7.5%
24 In 1998	7.25%
25 In 1999	7%
26 After 1999	6.9%."

27 **SECTION 5.2.** G.S. 105-130.5 reads as rewritten:

28 "**§ 105-130.5. Adjustments to federal taxable income in determining State net income.**

29 (a) The following additions to federal taxable income shall be made in determining
 30 State net income:

- 31 ...
- 32 ~~(3) The contributions deduction allowed by the Code.~~
- 33 ...
- 34 ~~(10) The total amounts allowed under this Chapter during the taxable year as a~~
 35 ~~credit against the taxpayer's income tax. This subdivision does not apply to a~~
 36 ~~credit allowed under G.S. 105-130.47. A corporation that apportions part of~~
 37 ~~its income to this State shall make the addition required by this subdivision~~
 38 ~~after it determines the amount of its income that is apportioned and allocated~~
 39 ~~to this State and shall not apply to a credit taken under this Chapter the~~
 40 ~~apportionment factor used by it in determining the amount of its apportioned~~
 41 ~~income.~~
- 42 ~~(11) The amount by which the percentage depletion allowance allowed by~~
 43 ~~sections 613 and 613A of the Code for mines, oil and gas wells, and other~~
 44 ~~natural deposits exceeds the cost depletion allowance for these items under~~
 45 ~~the Code, except as otherwise provided herein. This subdivision does not~~
 46 ~~apply to depletion deductions for clay, gravel, phosphate rock, lime, shells,~~
 47 ~~stone, sand, feldspar, gemstones, mica, talc, lithium compounds, tungsten,~~
 48 ~~coal, peat, olivine, pyrophyllite, and other solid minerals or rare earths~~
 49 ~~extracted from the soil or waters of this State. Corporations required to~~
 50 ~~apportion income to North Carolina shall first add to federal taxable income~~
 51 ~~the amount of all percentage depletion in excess of cost depletion that was~~

1 subtracted from the corporation's gross income in computing its federal
 2 income taxes and shall then subtract from the taxable income apportioned to
 3 North Carolina the amount by which the percentage depletion allowance
 4 allowed by sections 613 and 613A of the Code for solid minerals or rare
 5 earths extracted from the soil or waters of this State exceeds the cost
 6 depletion allowance for these items.

7 ...

8 (15) For taxable years 2002-2005, the applicable percentage of the amount
 9 allowed as a special accelerated depreciation deduction under section 168(k)
 10 or section 1400L of the Code, as set out in the table below. In addition, a
 11 taxpayer who was allowed a special accelerated depreciation deduction
 12 under section 168(k) or section 1400L of the Code in a taxable year
 13 beginning before January 1, 2002, and whose North Carolina taxable income
 14 in that earlier year reflected that accelerated depreciation deduction must add
 15 to federal taxable income in the taxpayer's first taxable year beginning on or
 16 after January 1, 2002, an amount equal to the amount of the deduction
 17 allowed in the earlier taxable year. These adjustments do not result in a
 18 difference in basis of the affected assets for State and federal income tax
 19 purposes. The applicable percentage is as follows:

Taxable Year	Percentage
2002	100%
2003	70%
2004	70%
2005	0%

25 (15a) The applicable percentage of the amount allowed as a special accelerated
 26 depreciation deduction under section 168(k) or 168(n) of the Code for
 27 property placed in service after December 31, 2007, but before January 1,
 28 2010. The applicable percentage under this subdivision is eighty-five percent
 29 (85%).

30 In addition, a taxpayer who was allowed a special accelerated
 31 depreciation deduction in taxable year 2007 or 2008 for property placed in
 32 service during that year, and whose North Carolina taxable income for that
 33 year reflected that accelerated depreciation deduction must make the
 34 adjustments set out below. These adjustments do not result in a difference in
 35 basis of the affected assets for State and federal income tax purposes.

36 a. A taxpayer must add to federal taxable income in the taxpayer's 2008
 37 taxable year an amount equal to the applicable percentage of the
 38 accelerated depreciation deduction reflected in the taxpayer's 2007
 39 North Carolina taxable income.

40 b. A taxpayer must add to federal taxable income in the taxpayer's 2009
 41 taxable year an amount equal to the applicable percentage of the
 42 accelerated depreciation deduction reflected in the taxpayer's 2008
 43 North Carolina taxable income.

44 ...

45 (20) The amount of a donation made to a nonprofit organization or a unit of State
 46 or local government for which a credit is claimed under G.S. 105-129.16H.

47 ...

48 (22) The amount allowed as a deduction under section 163(e)(5)(F) of the Code
 49 for an original issue discount on an applicable high yield discount obligation.

50 ...

- 1 (b) The following deductions from federal taxable income shall be made in determining
2 State net income:
- 3 (1) Interest upon the obligations of the United States or its possessions, to the
4 extent included in federal taxable income: Provided, interest upon the
5 obligations of the United States shall not be an allowable deduction unless
6 interest upon obligations of the State of North Carolina or any of its political
7 subdivisions is exempt from income taxes imposed by the United States.
- 8 (1a) Interest upon the obligations of ~~any of the following, net of related expenses,~~
9 ~~to the extent included in federal taxable income:~~
- 10 a. ~~This~~this State, a political subdivision of this State, or a commission,
11 an authority, or another agency of this State or of a political
12 subdivision of this ~~State.~~State, to the extent included in federal
13 taxable income.
- 14 b. ~~A nonprofit educational institution organized or chartered under the~~
15 ~~laws of this State.~~
- 16 (3a) Dividends treated as received from sources outside the United States as
17 determined under section 862 of the Code, net of related expenses, to the
18 extent included in federal taxable income. ~~Notwithstanding the proviso in~~
19 ~~subdivision (c)(3) of this section, the netting of related expenses shall be~~
20 ~~calculated in accordance with subdivision (c)(3) of this section and~~
21 ~~G.S. 105-130.6A.~~
- 22 ...
- 23 (5) ~~Contributions or gifts made by any corporation within the income year to the~~
24 ~~extent provided under G.S. 105-130.9.~~
- 25 ...
- 26 (7) ~~Depreciation of emergency facilities acquired prior to January 1, 1955. Any~~
27 ~~corporation shall be permitted to depreciate any emergency facility, as such~~
28 ~~is defined in section 168 of the Code, over its useful life, provided such~~
29 ~~facility was acquired prior to January 1, 1955, and no amortization has been~~
30 ~~claimed on such facility for State income tax purposes.~~
- 31 (8) ~~The amount of losses realized on the sale or other disposition of assets not~~
32 ~~allowed under section 1211(a) of the Code. All losses recognized on the sale~~
33 ~~or other disposition of assets must be included in determining State net~~
34 ~~income or loss in the year of disposition.~~
- 35 ...
- 36 (12) ~~Reasonable expenses, in excess of deductions allowed under the Code, paid~~
37 ~~for reforestation and cultivation of commercially grown trees; provided, that~~
38 ~~this deduction shall be allowed only to those corporations in which the real~~
39 ~~owners of all the shares of such corporation are natural persons actively~~
40 ~~engaged in the commercial growing of trees, or the spouse, siblings, or~~
41 ~~parents of such persons. Provided, further, that in no case shall a corporation~~
42 ~~be allowed a deduction for the same reforestation or cultivation expenditure~~
43 ~~more than once.~~
- 44 (13) ~~The eligible income of an international banking facility to the extent~~
45 ~~included in determining federal taxable income, determined as follows:~~
- 46 a. ~~"International banking facility" shall have the same meaning as is set~~
47 ~~forth in the laws of the United States or regulations of the board of~~
48 ~~governors of the federal reserve system.~~
- 49 b. ~~The eligible income of an international banking facility for the~~
50 ~~taxable year shall be an amount obtained by multiplying State taxable~~
51 ~~income as determined under G.S. 105-130.3 (determined without~~

1 regard to eligible income of an international banking facility and
2 allocation and apportionment, if applicable) for such year by a
3 fraction, the denominator of which shall be the gross receipts for
4 such year derived by the bank from all sources, and the numerator of
5 which shall be the adjusted gross receipts for such year derived by
6 the international banking facility from:

- 7 1. Making, arranging for, placing or servicing loans to foreign
8 persons substantially all the proceeds of which are for use
9 outside the United States;
- 10 2. Making or placing deposits with foreign persons which are
11 banks or foreign branches of banks (including foreign
12 subsidiaries or foreign branches of the taxpayer) or with other
13 international banking facilities; or
- 14 3. Entering into foreign exchange trading or hedging
15 transactions related to any of the transactions described in this
16 paragraph.

17 e. The adjusted gross receipts shall be determined by multiplying the
18 gross receipts of the international banking facility by a fraction the
19 numerator of which is the average amount for the taxable year of all
20 assets of the international banking facility which are employed
21 outside the United States and the denominator of which is the
22 average amount for the taxable year of all assets of the international
23 banking facility.

24 d. For the purposes of this subsection the term "foreign person" means:

- 25 1. An individual who is not a resident of the United States;
- 26 2. A foreign corporation, a foreign partnership or a foreign trust,
27 as defined in section 7701 of the Code, other than a domestic
28 branch thereof;
- 29 3. A foreign branch of a domestic corporation (including the
30 taxpayer);
- 31 4. A foreign government or an international organization or an
32 agency of either; or
- 33 5. An international banking facility.

34 For purposes of this paragraph, the terms "foreign" and
35 "domestic" shall have the same meaning as set forth in section 7701
36 of the Code.

37 ...
38 (15) The amount paid during the income year, pursuant to 7 U.S.C. § 1445-2, as
39 marketing assessments on tobacco grown by the corporation in North
40 Carolina.

41 ...
42 (19) To the extent included in federal taxable income, the amount paid to the
43 taxpayer during the taxable year from the Hurricane Floyd Reserve Fund in
44 the Office of State Budget and Management for hurricane relief or
45 assistance, but not including payments for goods or services provided by the
46 taxpayer.

47 ...
48 (21) In each of the taxpayer's first five taxable years beginning on or after
49 January 1, 2005, an amount equal to twenty percent (20%) of the amount
50 added to taxable income in a previous year as accelerated depreciation under
51 subdivision (a)(15) of this section.

1 ...
 2 (22) ~~To the extent included in federal taxable income, the amount paid to the~~
 3 ~~taxpayer during the taxable year from the Disaster Relief Reserve Fund in~~
 4 ~~the Office of State Budget and Management for hurricane relief or~~
 5 ~~assistance, but not including payments for goods or services provided by the~~
 6 ~~taxpayer.~~

7 ...
 8 (24) ~~Five percent (5%) of the gross purchase price of a qualified sale of a~~
 9 ~~manufactured home community. A qualified sale is a transfer of land~~
 10 ~~comprising a manufactured home community in a single purchase to a group~~
 11 ~~composed of a majority of the manufactured home community leaseholders~~
 12 ~~or to a nonprofit organization that represents such a group. To be eligible for~~
 13 ~~this deduction, a taxpayer must give notice of the sale to the North Carolina~~
 14 ~~Housing Finance Agency under G.S. 42-14.3.~~

15 ...
 16 (c) The following other adjustments to federal taxable income shall be made in
 17 determining State net income:

18 (1) ~~In determining State net income, no deduction shall be allowed for annual~~
 19 ~~amortization of bond premiums applicable to any bond acquired prior to~~
 20 ~~January 1, 1963. The amount of premium paid on any such bond shall be~~
 21 ~~deductible only in the year of sale or other disposition.~~

22 ...
 23 (5) ~~A savings and loan association may deduct interest earned on deposits at the~~
 24 ~~Federal Home Loan Bank of Atlanta, or its successor, to the extent included~~
 25 ~~in federal taxable income.~~

26 (d) Repealed by Session Laws 1987, c. 778, s. 3.

27 (e) Notwithstanding any other provision of this section, any recapture of depreciation
 28 required under the Code must be included in a corporation's State net income to the extent
 29 required for federal income tax purposes.

30 (f) Expired."

31 **SECTION 5.3.** The following statutes are repealed:

- 32 G.S. 105-130.9
- 33 G.S. 105-130.22
- 34 G.S. 105-130.25
- 35 G.S. 105-130.34
- 36 G.S. 105-130.36
- 37 G.S. 105-130.37
- 38 G.S. 105-130.39
- 39 G.S. 105-130.43
- 40 G.S. 105-130.44
- 41 G.S. 105-130.45
- 42 G.S. 105-130.46.

43 **SECTION 5.4.** This Part is effective for taxable years beginning on or after
 44 January 1, 2014.

45
 46 **PART VI. MOTOR FUELS TAX CHANGES**

47 **SECTION 6.1.** G.S. 105-449.80(a) reads as rewritten:

48 "(a) Rate. – The motor fuel excise tax rate is a flat rate of ~~seventeen and one-half cents~~
 49 ~~(17 1/2¢)~~thirteen and one-eighth cents (13 1/8¢) a gallon plus a variable wholesale component.
 50 The variable wholesale component is either ~~three and one-half cents (3 1/2¢)~~two and
 51 five-eighths cents (2 5/8¢) a gallon or ~~seven percent (7%)~~five and one-quarter percent (5.25%)

1 of the average wholesale price of motor fuel for the applicable base period, whichever is
2 greater.

3 The two base periods are six-month periods; one ends on September 30 and one ends on
4 March 31. The Secretary must set the tax rate twice a year based on the wholesale price for
5 each base period. A tax rate set by the Secretary using information for the base period that ends
6 on September 30 applies to the six-month period that begins the following January 1. A tax rate
7 set by the Secretary using information for the base period that ends on March 31 applies to the
8 six-month period that begins the following July 1."

9 **SECTION 6.2.** This Part becomes effective January 1, 2014.

10 **PART VII. TAX CREDIT FOR DEPARTMENT OF LABOR APPRENTICE HIRES**

11 **SECTION 7.1.** Article 3B of Subchapter I of Chapter 105 of the General Statutes
12 is amended by adding a new section to read:

13 **"§ 105-129.16K. Credit for employing apprentices.**

14 (a) Credit. – A taxpayer who employs an apprentice pursuant to an apprenticeship
15 agreement registered with the Apprenticeship and Training Bureau of the North Carolina
16 Department of Labor is allowed a credit equal to one thousand dollars (\$1,000) for each
17 apprentice employed. A credit is allowed if the apprentice was in the employ of the taxpayer
18 for at least seven full months of the taxable year. A credit is allowed for an individual
19 apprentice for up to four taxable years.

20 (b) Documentation. – In order to claim the credit allowed by this section, the taxpayer
21 must make available to the Department a written certification from the Apprenticeship and
22 Training Bureau of the Department of Labor containing the name and taxpayer identification
23 number of each registered apprentice employed by the taxpayer during the taxable year."

24 **SECTION 7.2.** This Part is effective for taxable years beginning on or after
25 January 1, 2014.

26 **PART VIII. EFFECTIVE DATE**

27 **SECTION 8.** Except as otherwise provided in this act, this act is effective when it
28 becomes law. This act does not affect the rights or liabilities of the State, a taxpayer, or another
29 person arising under a statute amended or repealed by this act before the effective date of its
30 amendment or repeal; nor does it affect the right to any refund or credit of a tax that accrued
31 under the amended or repealed statute before the effective date of its amendment or repeal.
32
33